

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA**

**FINANCIAL STATEMENTS  
AND REPORTS OF INDEPENDENT AUDITOR**

**DECEMBER 31, 2011**

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

**BROKEN ARROW, OK**

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
BOARD OF DIRECTORS  
DECEMBER 31, 2011

**BOARD OF DIRECTORS**

**Chairman**

Dianne Barker-Harrold

**Vice-Chairman**

Robert Hutchins

**Secretary/Treasurer**

Danny Shoemaker

**Members**

Ethan Kaopio

Jeff Delmedico

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5
Disposition of Prior Year's Reportable Conditions	7
Schedule of Audit Results	8
 <u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	9
Statement of Activities	10
Statement of Cash Flows	11
Notes to Financial Statements	12
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	16
Statement of Revenue, Expenses and Changes in Retained Earnings	17



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **Independent Auditor's Report**

Board of Directors  
Cherokee County Rural Water District No. 1  
Fort Gibson, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Cherokee County Rural Water District No. 1 (the District), Fort Gibson, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 7, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the company name written in a single line.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 7, 2012



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Cherokee County Rural Water District No. 1  
Fort Gibson, Oklahoma

We have audited the financial statements of the Cherokee County Rural Water District (the District) No. 1, Fort Gibson, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted auditing standards.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of

management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 11-1 is not a material weakness.

This report is intended solely for the information of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

March 7, 2012

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS  
DECEMBER 31, 2011

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.



CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1  
FORT GIBSON, OKLAHOMA  
SCHEDULE OF AUDIT RESULTS  
DECEMBER 31, 2011

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

11-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

Cherokee County Rural Water District No. 1  
Statement of Net Assets  
December 31, 2011

ASSETS:

Current assets:

Cash	\$ 86,600
Current portion of receivables	12,759
Prepaid assets	4,262
Total current assets	<u>103,621</u>

Noncurrent assets:

Restricted cash with fiscal agent	1,450
Restricted investment with fiscal agents	33,592
Capital assets, net	655,509
Other assets, net	12,980
Total noncurrent assets	<u>703,531</u>

Total Assets	<u>807,152</u>
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LIABILITIES:

Accounts payables	5,467
Notes payable - current portion	7,800
Notes payable - long-term portion	<u>311,800</u>
Total Liabilities	<u>325,067</u>

NET ASSETS:

Invested in capital assets, net of related debt	328,559
Restricted for debt service and deposits	35,083
Unrestricted assets	<u>118,443</u>
Total Net Assets	<u>\$ 482,085</u>

The accompanying notes to the financial statements are an integral part of this statement

Cherokee County Rural Water District No. 1  
Statement of Activities  
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales and other sales	<u>\$ 164,680</u>
Operating Expenses:	
Chemicals	4,616
Professional fees	13,090
Engineering fees	221
Supplies and parts	26,315
Insurance and bonds	7,170
Meter repair	300
Office equipment	372
Miscellaneous	1,855
Office supplies and postage	3,521
Dues and memberships	6,835
Repair labor	16,390
Salaries	57,370
Payroll taxes	5,685
Utilities and telephone	21,122
Vehicles	1,671
Water testing	4,530
Depreciation	29,613
Amortization	631
Total expenses from operations	<u>201,307</u>
Operating Income (Loss)	(36,627)
Non-Operating Revenues (Expenses):	
Interest income	1,391
Interest paid on long-term debt	<u>(6,320)</u>
Total non-operating revenues (expenses)	<u>(4,929)</u>
Change in Net Assets	(41,556)
Total Net Assets, beginning of period	<u>523,641</u>
Total Net Assets, end of period	<u><u>\$ 482,085</u></u>

The accompanying notes to the financial statements are an integral part of this statement

Cherokee County Rural Water District No. 1  
Statement of Cash Flows  
For the Year Ended December 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 162,221
Payments to employees	(62,993)
Payments to vendors	<u>(104,888)</u>
Net Cash Provided by Operating Activities	<u>(5,660)</u>

Cash Flows from Investing Activities:

Interest revenue	1,391
Sale (purchase) of fixed assets	<u>(23,277)</u>
Net Cash Provided by (used in) Investing Activities	<u>(21,886)</u>

Cash Flows from Financing Activities:

Interest expense on debt	(6,320)
Principal payments on debt	<u>(7,350)</u>
Net Cash Provided by (used in) Financing Activities	<u>(13,670)</u>

Net Increase (Decrease) in Cash (41,216)

Cash and cash equivalents, beginning of period 162,858

Cash and cash equivalents, end of period \$ 121,642

Reconciliation of operating income (loss) to net cash provided  
by operating activities:

Operating Income	\$ (36,627)
Adjustments to reconcile operating income to net cash provided (used by operating activities:	
Depreciation Expense	29,613
Amortization Expense	631
(Increase) decrease in accounts receivable	(2,459)
(Increase) decrease in prepaid expenses	(1)
Increase (decrease) in accounts payables	<u>3,183</u>
Net Cash Provided by Operating Activities	<u><u>\$ (5,660)</u></u>

The accompanying notes to the financial statements are an integral part of this statement

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note A – Significant Accounting Policies**

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Reporting Standard – In June 1999, the GASB issued Statement No. 34 “ Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected. The District has elected to implement this standard.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Cash

The District’s accounts are with Fort Gibson State Bank, Fort Gibson, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Cash on hand	\$ 86,943	-
Operating account	(343)	24,299
Less: outstanding checks	-	(5,852)
	<u>\$ 86,600</u>	<u>18,447</u>

Investments

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma Statutes, which includes certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2011**

Restricted Asset – Investment Reserves

In compliance with Oklahoma Water Resources Board Loan Agreement, the district is required to establish, fund and maintain a Debt Service Reserve Account. These funds can only be used by the Local Trustee to pay the principal or, premium, if any, and interest on the note and any other indebtedness issued therewith as the same become due and payable. The account is fully funded as stipulated by Article 1.11 of the Loan Agreement. The reserve account funds have been deposited in an interest-bearing money market account at the Bank of Oklahoma, Oklahoma City, Oklahoma, which is insured by the federal government. At December 31, 2011, the restricted asset is detailed as follows:

Bank of Oklahoma, Tulsa, Oklahoma	
Money Market account No. 83-6084-06-1, @.90%	<u>\$ 33,592</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage per banking institution as of December 31, 2011.

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$12,759. The amount of allowance for doubtful accounts was not material to this amount, and was not computed on this balance.

Federal Income Tax

The District is exempt from Federal and State income taxes.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5 years
Equipment & tools	5 years
Water & sewer system	40 years
Buildings	20-40 years
Computer equipment	3 years

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2011**

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 16,647	-	-	16,647
Water System	1,077,202	13,752	-	1,090,954
Bldg & Equip.	19,197	9,525	-	28,722
Less: Accumulated Depreciation	<u>(451,201)</u>	<u>(29,613)</u>	<u>-</u>	<u>(480,814)</u>
Total	<u><u>\$ 661,845</u></u>	<u><u>(6,336)</u></u>	<u><u>-</u></u>	<u><u>655,509</u></u>

**Note B – Long-term Debt**

Long-term debt as of December 31 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Note FAP-98-0029-L, variable interest rate, mortgage payable to the Oklahoma Water Resource Board, required semi-annual installments, through August 15, 2030	\$ 319,600	326,950
Less: current maturities	<u>(7,800)</u>	<u>(5,450)</u>
Total	<u><u>\$ 311,800</u></u>	<u><u>321,500</u></u>

The maturities for the next five years plus the total amount due thereafter are detailed as follows:

**Oklahoma Water Resources Board**

2012	\$ 7,800
2013	8,400
2014	9,000
2015	9,800
2016-20	62,300
2021-25	92,400
2026-30	<u>129,900</u>
Total	<u><u>\$319,600</u></u>

**Cherokee County Rural Water District No. 1**  
**Fort Gibson, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note C – Insurance and Surety Bond Coverage**

At December 31, 2011, the District had appropriate coverage against all major perils.

**Note D – Accumulated Unpaid Vacation and Sick Pay**

At December 31, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note E – Pending Litigation and Subsequent Events**

A property owner of 220 acres sued the District for the right to be supplied a large amount water, which could not be sustained by the current water system. In a jury trial in August, 2011, a judgment in excess of \$400,000 was rendered against the District. The District does not have enough funds to satisfy this judgment amount, so the plaintiff sought to garnish the District's bank accounts. In 2011, the District withdrew all available cash and began paying vendor obligations with this cash on hand via cashiers' checks, in order to keep supplying water to its customers.

In January, 2012, the District filed a petition under Chapter 9 of the U.S. Bankruptcy Code in order to preserve the use of all District assets. Under Chapter 9, operations of the District will continue uninterrupted, and customers of the District will see no change in their water service.



Cherokee County Rural Water District No. 1  
Balance Sheet  
December 31, 2011

	December 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash on hand	\$ 86,943	0
Cash in bank	(343)	18,447
Investments	0	109,328
Prepaid expenses	4,262	4,261
Accounts receivable	12,759	10,300
Total current assets	<u>103,621</u>	<u>142,336</u>
Restricted Assets:		
OWRB project fund	271	271
OWRB debt service reserve	33,592	33,593
OWRB debt service	<u>1,179</u>	<u>1,219</u>
Total restricted assets	<u>35,042</u>	<u>35,083</u>
Fixed Assets :		
Water system and lines	1,094,953	1,077,201
Office equipment	13,088	7,563
Building	11,635	11,635
Land	<u>16,647</u>	<u>16,647</u>
Fixed assets	1,136,323	1,113,046
Less: accumulated depreciation	<u>(480,814)</u>	<u>(451,201)</u>
Total fixed assets (net)	<u>655,509</u>	<u>661,845</u>
Other Assets:		
Bond - ORWA assurance group	1,000	1,000
OWRB loan costs (net of amortization)	<u>11,980</u>	<u>12,611</u>
Total other assets (net)	<u>12,980</u>	<u>13,611</u>
Total Assets	<u>\$ 807,152</u>	<u>852,875</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 5,467	2,284
Current portion long-term debt	<u>7,800</u>	<u>5,450</u>
Total current liabilities	<u>13,267</u>	<u>7,734</u>
Long-term Debt:		
Notes payable-OWRB	<u>311,800</u>	<u>321,500</u>
Total Liabilities	<u>325,067</u>	<u>329,234</u>
Fund Equity:		
Retained earnings	<u>482,085</u>	<u>523,641</u>
Total Liabilities and Fund Equity	<u>\$ 807,152</u>	<u>852,875</u>

Cherokee County Rural Water District No. 1  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended December 31, 2011

	2011	(memo only) 2010
Revenue from Operations:		
Water sales and other sales	\$ 163,517	133,865
Miscellaneous	1,163	165
Total revenue from operations	<u>164,680</u>	<u>134,030</u>
Expenses from Operations:		
Chemicals	4,616	6,420
Professional fees	13,090	4,030
Engineering fees	221	17,000
Supplies and parts	26,315	15,101
Insurance and bonds	7,170	7,790
Lake water usage	0	600
Meter repair	300	425
Office equipment	372	0
Miscellaneous	1,855	502
Office supplies and postage	3,521	2,943
Dues and memberships	6,835	6,905
Repair labor	16,390	8,410
Salaries	57,370	57,320
Payroll taxes	5,685	4,707
Utilities and telephone	21,122	21,667
Vehicles	1,671	514
Water testing	4,530	4,535
Depreciation	29,613	29,175
Amortization	631	631
Total expenses from operations	<u>201,307</u>	<u>188,675</u>
Net Income (Loss) from Operations	(36,627)	(54,645)
Other Income:		
Interest earnings	<u>1,391</u>	<u>2,734</u>
Other Expenses:		
Interest on long-term debt	<u>(6,320)</u>	<u>(6,505)</u>
Net Income (Loss)	(41,556)	(58,416)
Retained earnings, beginning of period	<u>523,641</u>	<u>582,057</u>
Retained earnings, end of period	<u><u>\$ 482,085</u></u>	<u><u>523,641</u></u>